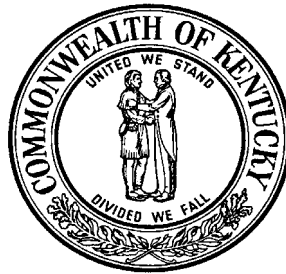


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS
DEPARTMENT OF PARKS**

**In Reference to the Statewide Single Audit
of the Commonwealth of Kentucky**

**For the Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0081**

TABLE OF CONTENTS

MANAGEMENT LETTER.....	1
LIST OF ABBREVIATIONS/ACRONYMS.....	3
FINANCIAL STATEMENT FINDINGS	4
<i>Reportable Conditions Relating to Internal Controls and/or</i> <i>Reportable Instances of Noncompliance</i>	4
FINDING 05-PARKS-1: The Department Of Parks Should Ensure Compliance With Procurement Card Policies	4
FINDING 05-PARKS-2: The Department Of Parks Should Strengthen Controls Over Timecards/Timesheets And Payroll Records.....	5
<i>Other Matters Relating to Internal Controls and/or Instances of Noncompliance</i>	4
FINDING 05-PARKS-3: The Department Of Parks Should Improve Controls Over Physical Inventory Counts And Ensure Change Fund Counts Are Conducted On A Regular Basis	4
FINDING 05-PARKS-4: The Department Of Parks Should Improve Controls Over Receipts Supporting Documentation	6
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS.....	8



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

George Ward, Secretary, Commerce Cabinet

John Kingston, Deputy Commissioner, Department of Parks

MANAGEMENT LETTER

KRS 43.090 (1) requires the Auditor of Public Accounts, upon completion of each audit and investigation, to prepare a report of all findings and recommendations, and to furnish copies of the report to the head of the agency to which the report pertains, and to the Governor, among others. This KRS also requires the Department of Parks to, within 60 days of the completion of the final audit, notify the Legislative Research Commission and the Auditor of Public Accounts of the audit recommendations it has implemented and those it has not implemented and any reasons therefore. We are providing this letter to the Department of Parks in compliance with KRS 43.090.

The work completed on the Department of Parks is part of the overall opinions included in the audit of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) and Statewide Single Audit of Kentucky (SSWAK). Findings and recommendations for agencies, audited as part of the CAFR and SSWAK, if applicable, can be found in the Statewide Single Audit Report. This report can be obtained on our website at www.auditor.ky.gov.

In planning and performing our audits of the Commonwealth for the year ended June 30, 2005, we considered the Department of Parks' internal control over financial reporting and compliance with laws, regulations, contracts and grant agreements in order to determine our auditing procedures for the purpose of expressing opinions included in the audit of the CAFR and SSWAK and not to provide an opinion on internal control or on compliance.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The SSWAK is a separate report dated March 9, 2006 and contains all reportable conditions and material weaknesses in the Commonwealth's internal control structure and also contains all reportable instances of noncompliance. This letter contains the Department of Parks' findings and our recommendations that have been extracted from the SSWAK report along with other matters that have been identified.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
George Ward, Secretary, Commerce Cabinet
John Kington, Deputy Commissioner, Department of Parks

We will review the status of these comments during our next audit. We have already discussed many of these comments and suggestions with various Department of Parks personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Findings and Recommendations
 - Other Matters and CAFR/SSWAK Findings
- ◆ Summary Schedule of Prior Audit Findings

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 9, 2006

LIST OF ABBREVIATIONS/ACRONYMS

CAFR	Comprehensive Annual Financial Report
CFDA	Catalog of Federal Domestic Assistance
Commonwealth	Commonwealth of Kentucky
DOP	Department of Parks
FAC	Finance and Administration Cabinet
FAP	Finance and Administration Policy
Finance	Finance and Administration Cabinet
FY	Fiscal Year
KAR	Kentucky Administrative Regulations
KRS	Kentucky Revised Statutes
NA	Not Applicable
Parks	Department of Parks
ProCard	Procurement Card
SSWAK	Statewide Single Audit of Kentucky
UPPS	Uniform Payroll and Personnel System

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-PARKS-1: The Department Of Parks Should Ensure Compliance With
Procurement Card Policies**

We tested 40 ProCard transactions to determine compliance with FAP 111-58-00 and FAC ProCard procedures and that adequate controls are in place. The results of our testing included the following exceptions:

No evidence shows two (2) employees who use organizational unit's cards receive user's guides.

- One (1) authorized signer did not attend training provided by Finance.
- A list of pre-approved purchases does not exist.
- Written justification for applying for new organizational cards did not include an explanation of why the card was needed.
- No evidence was provided that nine (9) ProCard purchases were pre-approved before the cards were logged out.
- Two (2) incidents were noted where the organizational card was used before the card was logged out.
- For one (1) transaction, the person who signed on the receipt was different from the person who logged out the organizational card.
- The supporting documentation for one transaction indicated that sales tax had been charged, but no indication was provided that the sales tax was recovered from the vendor.
- For four (4) transactions, no evidence indicates that the cardholder or user inspected shipments.
- For five (5) transactions, no signatures are shown on the receipts.
- Four (4) ProCard accounts were identified that they were cancelled after the date the employees' positions were terminated.

Failure to provide users ProCard user's guides would not ensure users are aware of ProCard policies. Failure to receive training would not ensure the authorized signer is aware of specific ProCard program regulations and agency-specific procedures. Failure to follow the policies in the FAP 111-58-00 and Finance Procurement Card User's Guide would indicate the card may be misused. Failure to promptly cancel ProCards, after an employee either leaves employment or transfers to another part of the agency, would increase the risk that unauthorized charges may be made to the ProCards.

Good internal controls dictate procurement card policies should be followed to ensure procurement cards are used properly.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-PARKS-1: The Department Of Parks Should Ensure Compliance With
Procurement Card Policies (Continued)**

Recommendation

We recommend the following:

- Parks should ensure that the administrator and cardholders adhere to the guidelines set forth in the FAP 111-58-00, Procurement Card User's Guide provided by Finance and Parks' ProCard Guide. Disciplinary action should be enforced if the cardholder or user does not comply with these policies.
- Employees who use an organizational unit's card should be given copies of the Finance Procurement Card User's Guide and the Procurement Card section from the Parks' Business Procedures Guide.
- The authorized signer should attend training provided by Finance.
- A list of pre-approved purchases should be included in the Parks' Business Procedures Guide.
- Parks could use a stamp to meet the shipment inspection requirement.
- The administrator should ensure that when a cardholder either leaves employment or job duties no longer require the use of a ProCard, that the ProCard is immediately cancelled with the bank.

Management's Response and Corrective Action Plan

I will be responding to each of the eleven conditions noted above due to the varying nature of each.

1. I agree, all participating parks are required to provide the user's of the pro-card a copy of the guide on the rules and regulations. Going forward when signing the acceptance form required for usage, they will agree that they have received a guide to the rules surrounding pro-card usage.

2. Since the audit I have attended the User group meeting held in December which is given once a year. This was the first opportunity I had to be trained. Prior to December, I had read the Procurement Card User's guide provided by Finance and Administration.

3. A list of items that are not-allowable for purchase does exist within the user guide. Parks has, since the audit, established a parks specific pro-card user guide. This guide as does Finance and Administration's guide list the items not allowable for purchase using the pro-card.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-PARKS-1: The Department Of Parks Should Ensure Compliance With Procurement Card Policies (Continued)

Management's Response and Corrective Action Plan (Continued)

4-10. In response to conditions 4-10, an internal audit performed in Oct 2005 found similar issues. As a result, we constructed a Park's specific pro-card policies and procedure guide based on the premise of the Finance and Administration guidelines. We have required all users to fill out new acceptance forms as well as review the guidelines and requirements needed when using them. All individual and organizational cardholders are instructed to communicate immediately to the pro-card administrator if they have questions with the procedures.

11. Regarding cancellation of the pro-card for employees that have left the parks. The pro-card administrator located in finance is not usually the first person notified about a termination. I have encouraged personnel to contact us as soon as possible so we can process the termination. I felt that with the exception of the last individual, the pro-cards were terminated within a reasonable time frame. The first individual who was terminated on Friday 1/21/05 from Yatesville had their account closed on Monday 1/24/05.

FINDING 05-PARKS-2: The Department Of Parks Should Strengthen Controls Over Timecards/Timesheets And Payroll Records

During payroll testing at the Department of Parks, we examined a sample of 25 payroll records. The results of our testing included the following exceptions:

- Three (3) timecards were not signed by employees and supervisors.
- Two (2) employees' overtime requests were not present.
- One (1) employee's working hours were overstated.
- One (1) employee's compensatory hour was coded incorrectly.

We also reviewed one pay period for one park. There were 13 employees on the tested payroll period. The following was noted:

- One (1) timecard was not signed by the supervisor.
- Five (5) employees worked overtime but overtime request was not provided.
- Eleven (11) employees took leave time but leave form was not provided.
- Eleven (11) employees' timecards only indicate the first names.
- One (1) employee's working hours were reported incorrectly.

FINANCIAL STATEMENT FINDINGS

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance

FINDING 05-PARKS-2: The Department Of Parks Should Strengthen Controls Over Timecards/Timesheets And Payroll Records (Continued)

- The hours on one employee's timecard did not equal the hours reported on the Payroll Worksheet.
- One (1) employee's working hour on the timecard was counted incorrectly.

Failure to sign on the timecard by both of the employee and the supervisor would result in noncompliance with the Department of Parks' policy. Failure to present leave forms or overtime request would not show evidence of approval. Failure to ensure that working hours are calculated correctly on timecards/timesheets would show incorrect numbers in the UPPS. As a result, employees would be paid incorrectly. Failure to include the employee's full name on a timecard/timesheet would not ensure who owns the timecard/timesheet.

Department of Parks' Policy 01-01 Time Reporting states, "Both the employee and the supervisor must sign all time cards and any changes or time written in must be briefly explained by the supervisor and initialed by both the employee and the supervisor." The Department of Parks' Business Procedures Guide, Section 28 states, "The DEPARTMENT SUPERVISOR is responsible for... obtaining the employees signature, signing the time cards ..."

101 KAR 2:034 Section 7(3) states an employee who is eligible for overtime shall request permission from or be directed in advance by the supervisor to work overtime.

101 KAR 2:102 Section 2(5)(a) states an employee shall file a written application for sick leave with or without pay within a reasonable time. The Department of Parks' Business Procedures Guide, Section 28 states department supervisors ensure that leave/comp forms are completed, signed and turned in with the timecard.

Good internal controls dictate that timecard computations should be verified and payroll supporting forms should be reviewed to prevent errors in recording payroll.

Recommendation

We recommend the following:

- Timecards should be signed by both of the employee and the supervisor.
- A request for overtime should be submitted by each employee prior to any overtime worked.
- Leave forms should be submitted to obtain approval if leave is taken.
- Timesheets, timecards, leave requests, overtime requests and payroll worksheet should be examined more closely to prevent errors in payroll.
- Timecards should include the employees' last names.

FINANCIAL STATEMENT FINDINGS***Reportable Conditions Relating to Internal Controls and/or
Reportable Instances of Noncompliance*****FINDING 05-PARKS-2: The Department Of Parks Should Strengthen Controls Over
Timecards/Timesheets And Payroll Records (Continued)**

Management's Response and Corrective Action Plan

We acknowledge the errors that were found during the recent audit and suggest at this time that we have already taken steps to ensure compliance with State regulations and DOP policies and we will continue to educate our employees on these important recommendations in the future.

Our own internal audit branch conducted a similar review of various timecards at parks throughout the state. At that time, we concluded that it was necessary to reinstruct employees regarding certain procedures and policies. The following points were made:

- 1) Supervisors must review and sign all timecards.*
- 2) Timecards must be evaluated for accuracy, completeness and overall compliance with policies.*
- 3) Supervisors must ensure that a Commerce Cabinet Leave Form supports any leave used and/or compensatory leave/overtime earned.*
- 4) Both employee and supervisor need to sign the Leave Form.*
- 5) Any use of leave should be approved in advance.*

This email and a copy of the Commerce Cabinet Leave Form was sent to all park managers and payroll officers on August 25, 2005 by the Assistant Director of Personnel. Each and every deficiency you uncovered in your audit, occurred prior to the issuance of this electronic notice. Each of your five (5) recommendations were already addressed in this communication.

Furthermore, you reviewed the December 15, 2004 payroll at Yatesville Lake State Park and found numerous errors. It is with much confidence that we can state the management of Yatesville Lake was not reflective of management at our Parks, particularly at that time period. It was approximately December 22, 2004 when Central Office employees in Frankfort, realized that there were some questionable payroll practices on going at Yatesville, which was apparently approved and endorsed by the previous Park Manager.

We immediately intervened and investigated the situation and the previous Park Manager is no longer with the State Parks. The employees were made aware of errors and instructed to correct immediately.

We are confident that we have adequately addressed the concerns and will continue to do so in the future.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-PARKS-3: The Department Of Parks Should Improve Controls Over Physical Inventory Counts And Ensure Change Fund Counts Are Conducted On A Regular Basis

We visited seven (7) state parks to observe year-end physical inventory counts and to review change fund procedures. We also tested to determine if a minimum of two (2) cash counts were performed per facility each month. The following weaknesses were noted during the visit:

Inventories

- At three (3) parks, storage areas were not locked.
- At one (1) park, some items over \$20 had no description on inventory count sheets.
- At five (5) parks, inventory count sheets were not pre-numbered by category.
- At two (2) parks, spot-check was not performed by the person who was in charge of the count, Park Manager or Business Manager.
- At two (2) parks, unused lines on the inventory sheets were not being marked out.
- At two (2) parks, the inventory takers were not aware of the most recent procedures.
- At one (1) park, there was no layout diagram.
- At one (1) park, no adjustment was made while the shop remained open during the inventory count.
- At one (1) park, no adjustment was made when the inventory in a kitchen was used.
- One (1) park's inventory count was conducted by an independent company. The independent company's procedures were not reviewed and approved by the central office before the contract was made.
- At one (1) park, detailed location was not included on the inventory count sheet.
- For four (4) parks there was no evidence showing that the extensions and footings on the inventory count sheets were reviewed.

Change Fund

- At three (3) parks, a minimum of two (2) cash counts per facility each month were not performed.
- At one (1) park, there was no sufficient documentation showing cash counts were performed twice a month for each facility.
- At one (1) park, refund slips were allowed to be kept in the Refund Box change fund. A voucher for \$120 from the Boat Dock was included in the Front Desk change fund.
- At one (1) park, the Business Office safe was not being counted on a daily basis.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-PARKS-3: The Department Of Parks Should Improve Controls Over Physical Inventory Counts And Ensure Change Fund Counts Are Conducted On A Regular Basis (Continued)

Failure to follow procedures to conduct physical inventory counts could provide inaccurate information. As a result, incorrect dollar amounts could be reported on the financial statements. Failure to conduct surprise cash counts would not ensure that the cash is safeguarded, especially during the peak season when receipts are higher.

Good internal controls dictate that a consistent set of procedures be followed when conducting a physical inventory count.

The Department of Parks' Business Procedures Guide states, "Surprise counts of the change fund issued to the various facilities at the park are an integral part of internal control. The park manager (or designee) should count these change funds (at the facility) at least two or three times a month."

The Department of Parks' Business Procedures Guide states, "A record should be kept, by facility, of the dates that these surprise counts are made."

The Department of Parks' Business Procedures Guide states, "The fund is to be kept, at all times, in the form of cash. It should not include any checks or any other substitutes (IOU's, etc.) for coins and currency."

The Department of Parks' Business Procedures Guide states, "NOTE: THE TOTAL AMOUNT OF THE CHANGE FUND SHOULD BE COUNTED AND VERIFIED BY THE PARK MANAGER (OR DESIGNEE) EACH DAY."

Recommendation

We recommend the following:

- The central office requires each park to follow the policies and procedures outlined in the Department of Parks' Business Procedures Manual for physical inventory counts.
- Inventory takers should have the updated procedures guide.
- Inventory count sheets should be pre-numbered.
- The extensions and footings on the inventory count sheets should be reviewed. The reviewer should sign off on the count sheets.
- The business office should ensure that surprise counts are conducted at least two times a month per facility and documented.
- The change fund should be in the form of cash.
- The total amount of the change fund should be counted each day.

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-PARKS-3: The Department Of Parks Should Improve Controls Over Physical Inventory Counts And Ensure Change Fund Counts Are Conducted On A Regular Basis (Continued)

Management's Response and Corrective Action Plan

We agree with all of the recommendations (except as noted below) and will reiterate to the parks involved the importance of following proper procedures:

The gift shop storage areas at Lake Cumberland, Kentucky Dam, and My Old Kentucky Home is the office for the gift shop supervisor, so they are not required to lock it before, during, or after a physical count.

Our procedures don't require a park to make an adjustment to the inventory for items sold during the count. We do not have enough employees to accurately accomplish this. They have been orally instructed to mark high dollar items sold during the count off their count sheet, but it's a judgment call at the time. We feel it is more important to cater to our guests and not lose sales and this is a necessary evil of remaining open during the count.

We agree that the parks involved were in violation of cash count procedures at the time of the audit. In their defense, with all of the cutbacks we have made to business office staff, we have revised this procedure in November 2005 to state that cash counts must be done on a regular basis and let park field management decide when they need to be done. Essentially cash counts are done on a daily basis anyway when employees pick up and drop off their money bags.

The refund slips in the change fund was where the park would issue a refund to a guest out of the change fund and then replenish the change fund when the vendor reimbursed them. I have instructed the park to issue refunds out of the front desk register receipts and show the front desk as being short (with an explanation). When the vendor reimburses us, we will show the front desk as being over (with an explanation).

The reason there was a \$120 voucher in the change fund drawer at the front desk was because part of the park's change fund had been temporarily moved from one facility to the next. It in no way indicated any shortage of the change fund. In order to protect front desk employees from accusations of theft, departments do not turn in their money bag key with the money bag each night. The key is left in the cash register at the facility. In this particular instance, the person closing the marina that night noticed that they were running low on change, so they attached a note to the money bag instructing the person opening the next day what change was needed. The front desk then issued the change. Since the key to the money bag was at the marina, as it should be, the marina employee could not give the front desk the

FINANCIAL STATEMENT FINDINGS

Other Matters Relating to Internal Controls and/or Instances of Noncompliance

FINDING 05-PARKS-3: The Department Of Parks Should Improve Controls Over Physical Inventory Counts And Ensure Change Fund Counts Are Conducted On A Regular Basis (Continued)

Management's Response and Corrective Action Plan (Continued)

money for the change needed, so instead they signed a voucher for the change. The marina employee returned the money back to the front desk when they returned to the lodge and the voucher was discarded at that time. The change fund was kept intact, just temporarily moved from one facility to the next. This does not violate our policies or procedures.

FINDING 05-PARKS-4: The Department Of Parks Should Improve Controls Over Receipts Supporting Documentation

As part of our receipts testing, we reviewed backup documentation for receipts and noted the following:

- Two (2) meal tickets and one (1) boat receipt were missing and no investigation was performed.
- \$50 on the golf course receipts was voided but no explanation was provided. The void occurred during the previous management.
- Campers were charged for a senior rate but camping permits did not indicate seniors for a reduced rate.
- One (1) park is unable to determine the daily sale based on fishing permits receipt.

Failure to investigate the missing backup documentation would not ensure that all receipts are recorded. Failure to explain the voided amount would not ensure that the void is made reasonably. Failure to indicate the reason for a reduced rate would not ensure that the charge rate is correct. Failure to print out the daily report would not determine the daily receipts.

The Department of Parks' Business Procedures Guide states, "The park manager (or designee) has the responsibility for maintaining a perpetual inventory of all pre-numbered documents."

The Department of Parks' Business Procedures Guide states that the park managers should establish procedures "to reflect information concerning errors made will be in complete detail and contain the nature of the error, the time and date of the error, and the name of the person making the error. The information is then placed in the cash drawer."

FINANCIAL STATEMENT FINDINGS***Other Matters Relating to Internal Controls and/or Instances of Noncompliance*****FINDING 05-PARKS-4: The Department Of Parks Should Improve Controls Over Receipts Supporting Documentation (Continued)**

Good internal controls and good business practice dictate that the required information on the receipt documents (for example, camping permit) should be complete to ensure the charge is correct.

Good internal controls and good business practice dictate that daily reports should be available for daily receipts.

Recommendation

We recommend the following:

- All missing pre-numbered documents should be investigated.
- Void log should be used.
- Camping permits should indicate the reason for a reduced rate, senior or disabled.
- A daily report should be printed out for the sale of fishing licenses.

Management's Response and Corrective Action Plan

We agree with the comments stated above covering receipts. My office will make every effort to ensure those parks found in violation and all parks understand the policy and procedures surrounding the proper recording of receipts. We feel this finding are isolated and are a result of having to staff parks with interim employees.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Reportable Conditions

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

FY 04	04-PARKS1- 11	The Department Of Parks Should Improve Controls Over Timesheets And Payroll Reports	NA	0	See 05-PARKS-2.
-------	------------------	---	----	---	-----------------

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.

Material Weaknesses/Noncompliances

(1) Audit findings that have been fully corrected:

No findings for this section.

(2) Audit findings not corrected or partially corrected:

No findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	---------------------------	----------------	------------------------	-----------------------------	-----------------

Other Matters

(1) Audit findings that have been fully corrected:

FY 04	04-PARKS-2	The Department Of Parks Should Strengthen Controls Over The Review Of Supporting Documentation Prior To Payment	NA	0	Resolved during FY 05.
-------	------------	---	----	---	------------------------

(2) Audit findings not corrected or partially corrected:

FY 04	04-PARKS-3	The Department Of Parks Should Improve Controls Over Inventory Count And Safeguard Of Inventories	NA	0	See 05-PARKS-3.
-------	------------	---	----	---	-----------------

(3) Corrective action taken is significantly different from corrective action previously reported:

No findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

No findings for this section.